

# Economic & Revenue Outlook

Presented to  
Association of Washington Business

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Executive Director

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Seattle, Washington



**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**

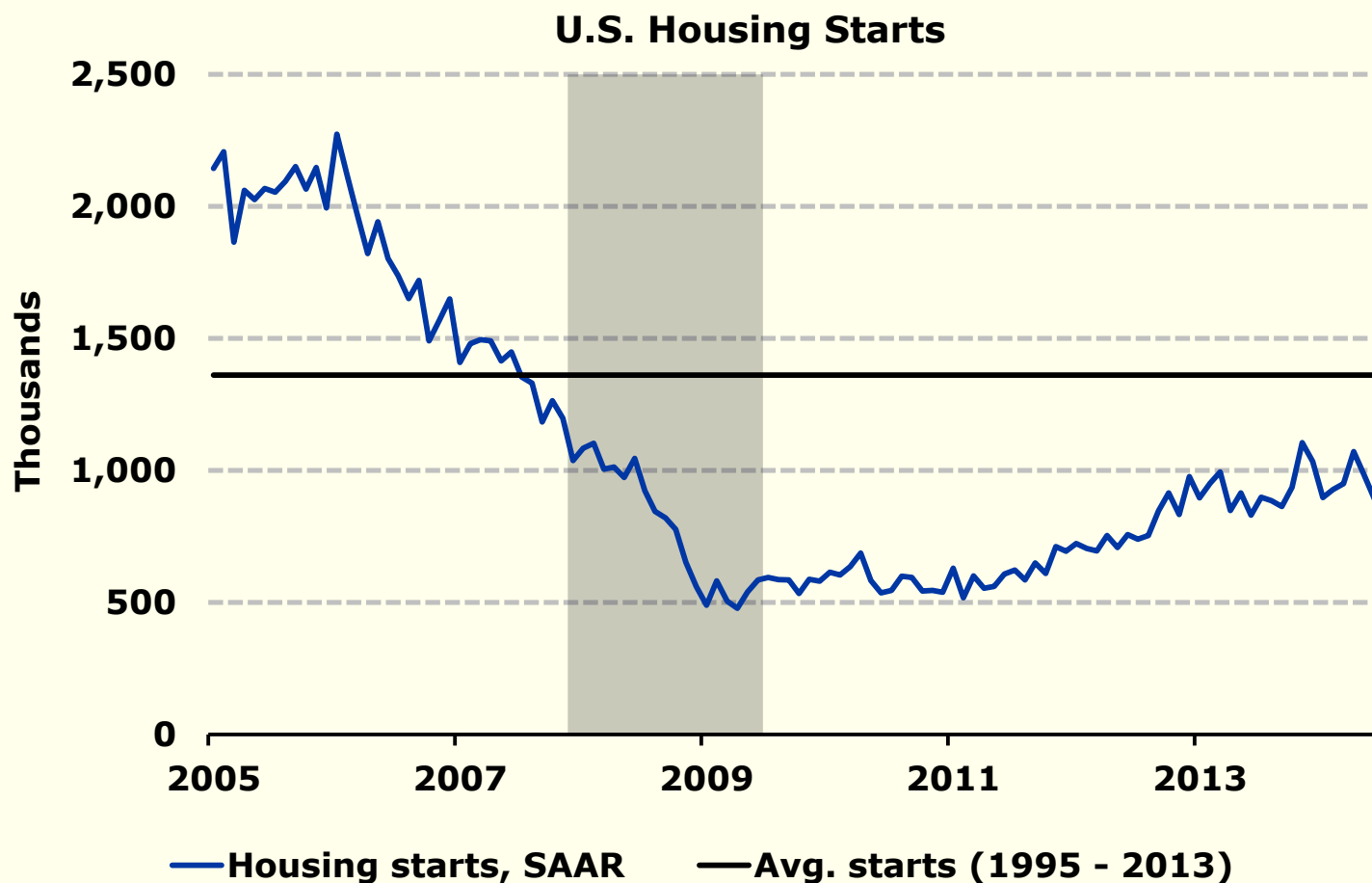


# Summary

- Our economic forecast has been fairly consistent, with moderate economic growth in the U.S. after the weather-related contraction in 1<sup>st</sup> quarter of 2014
- Risks to the baseline include the potential for slower Chinese economic growth, possible disruptions to the housing recovery, and turmoil in the Middle East; recent labor market strength suggests potential upside risks as well
- The June forecast increased by tax revenues by \$157 million for the 2013-15 biennium and by \$238 million for the 2015-17 biennium
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and federal government



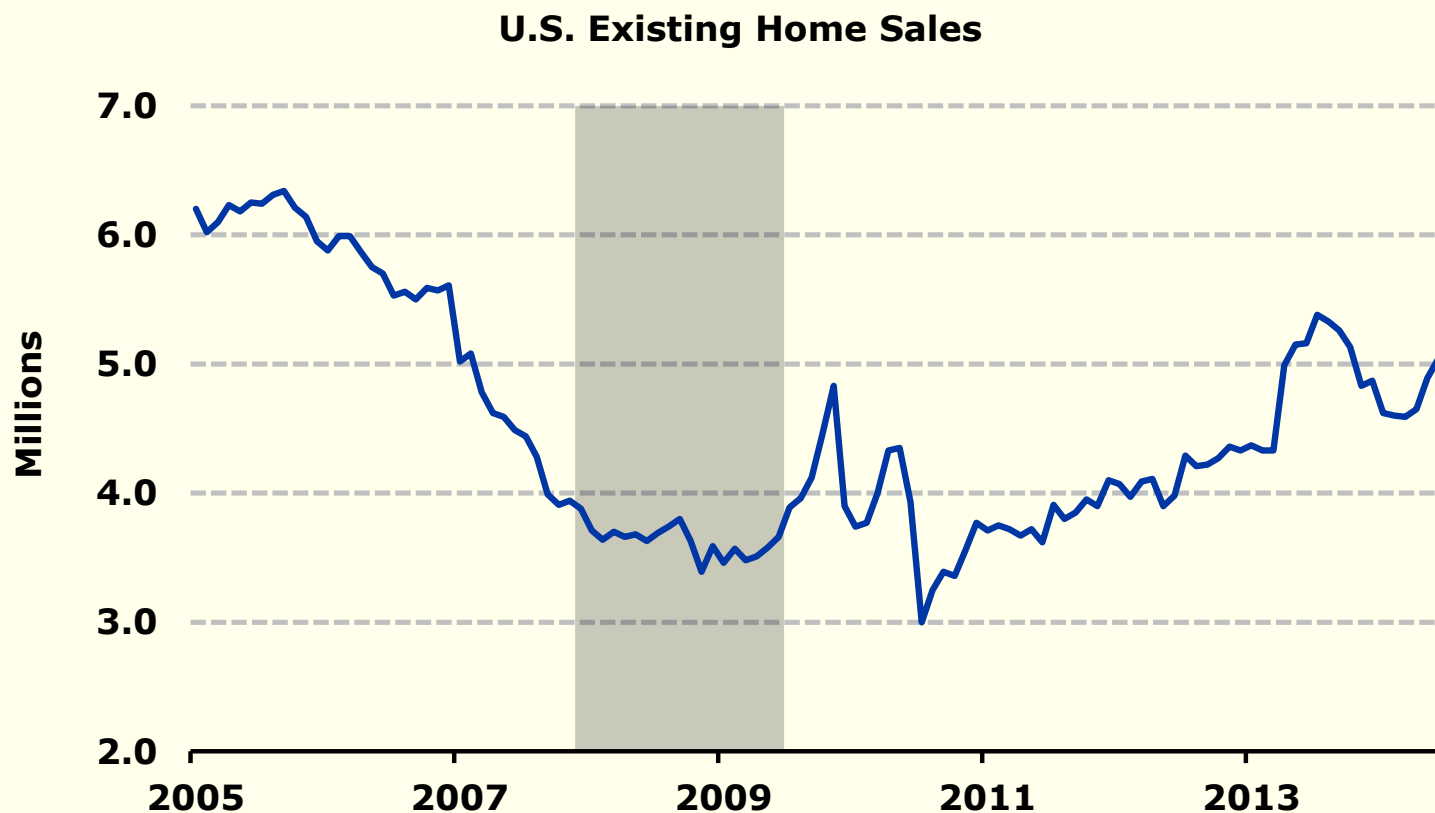
# Housing starts remain below historic average



Source: U.S. Census; data through June 2014



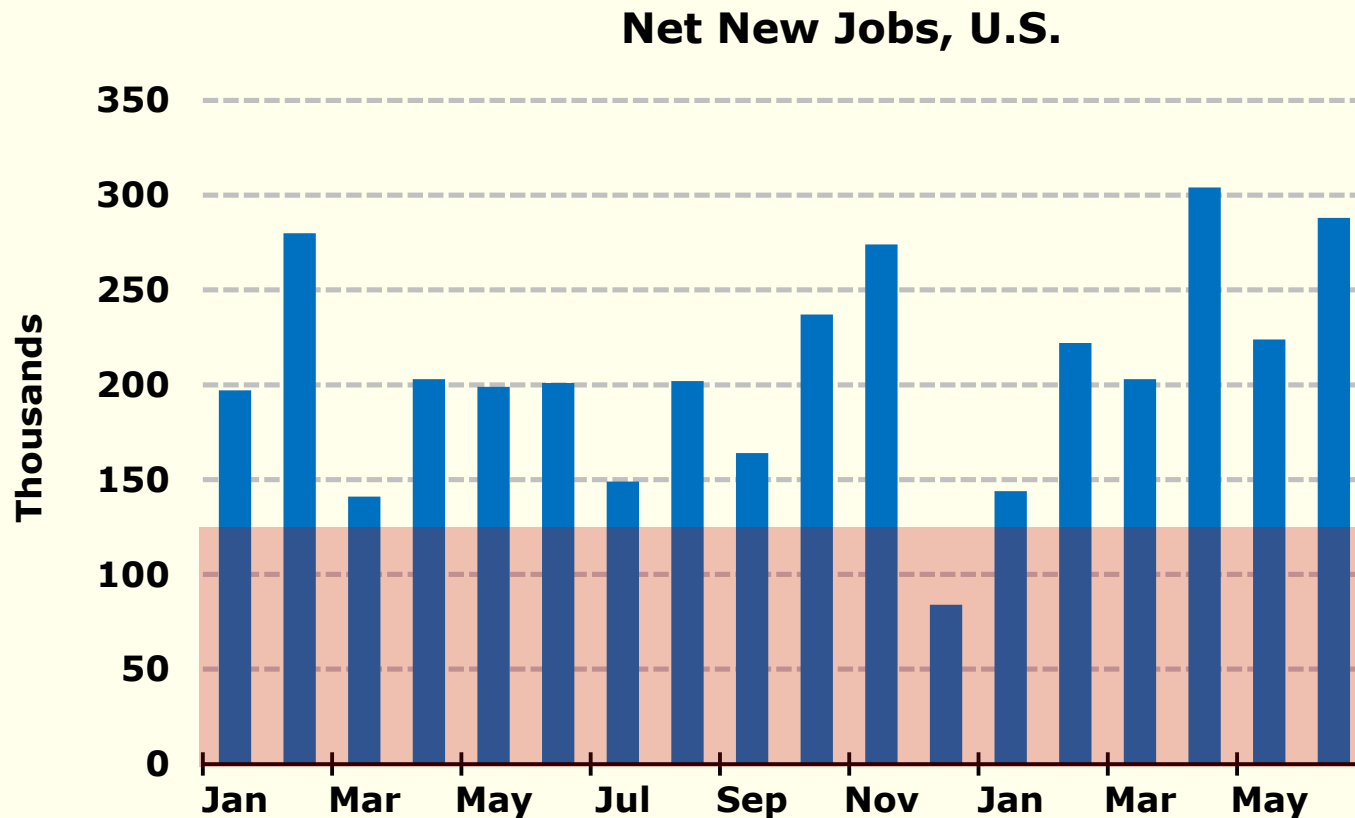
# Home sales have turned up recently





# Job growth has strengthened

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force

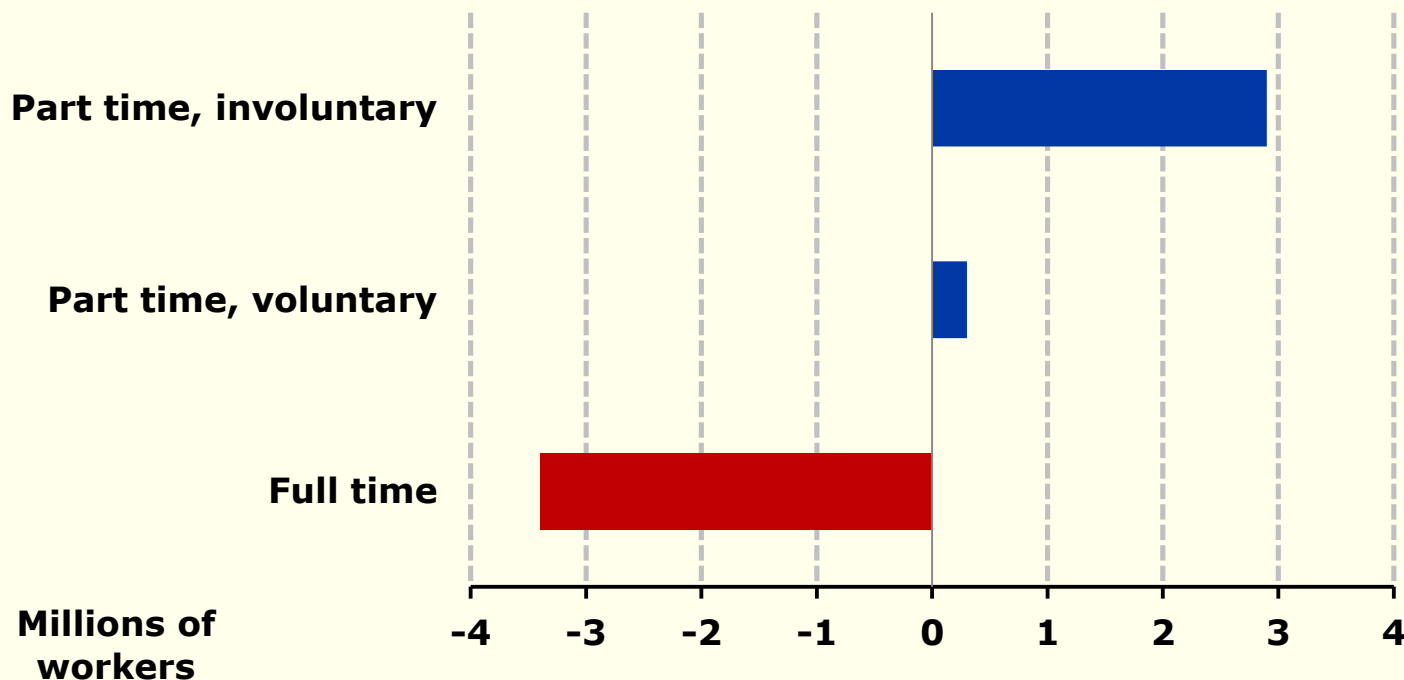


Source: Bureau of Labor Statistics, data through June 2014



# Full-time jobs have decreased while part-time employment has increased

**Change in employment by hours worked,  
Dec 2007 – June 2014**



Source: Bureau of Labor Statistics; data Dec. 2007 – June 2014

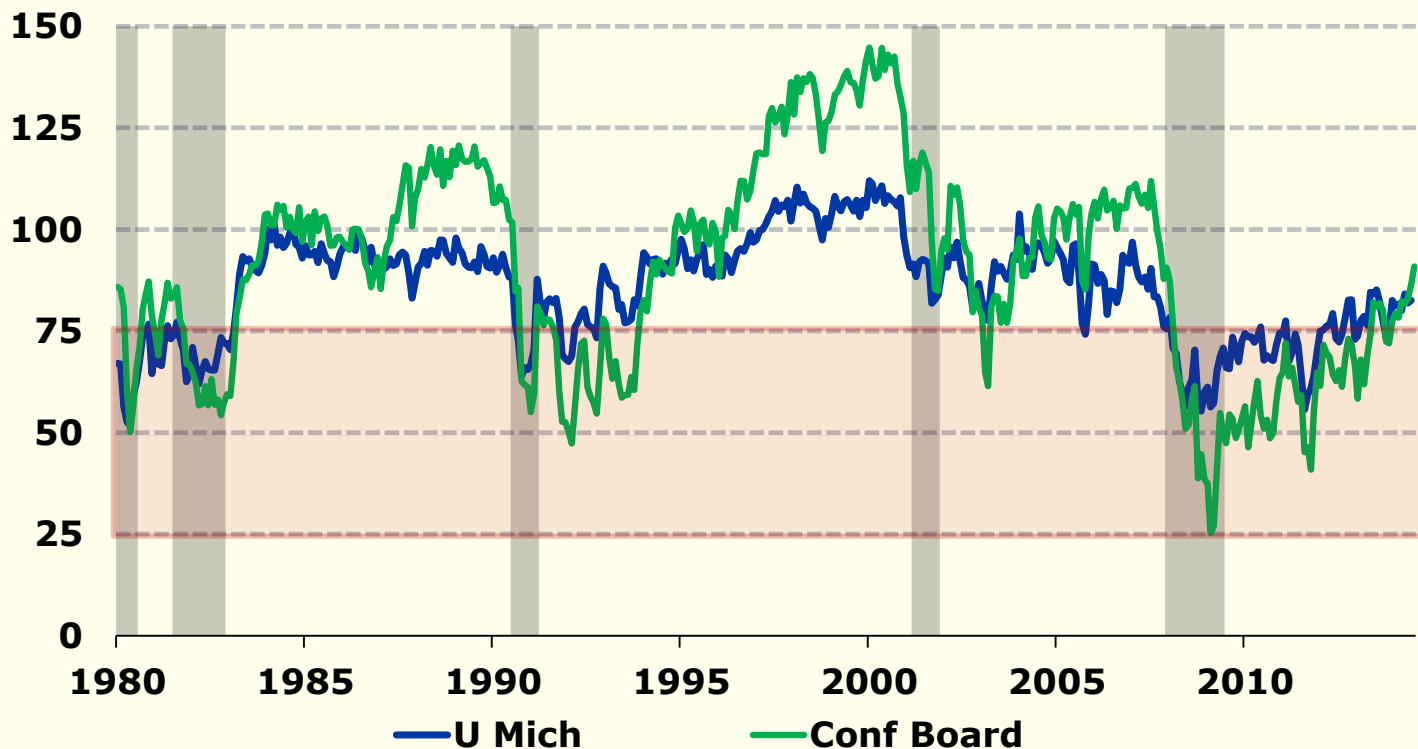


# Consumer confidence has improved but still below pre-recession levels

**Index**

**Mich: 1966Q1 = 100, SA**

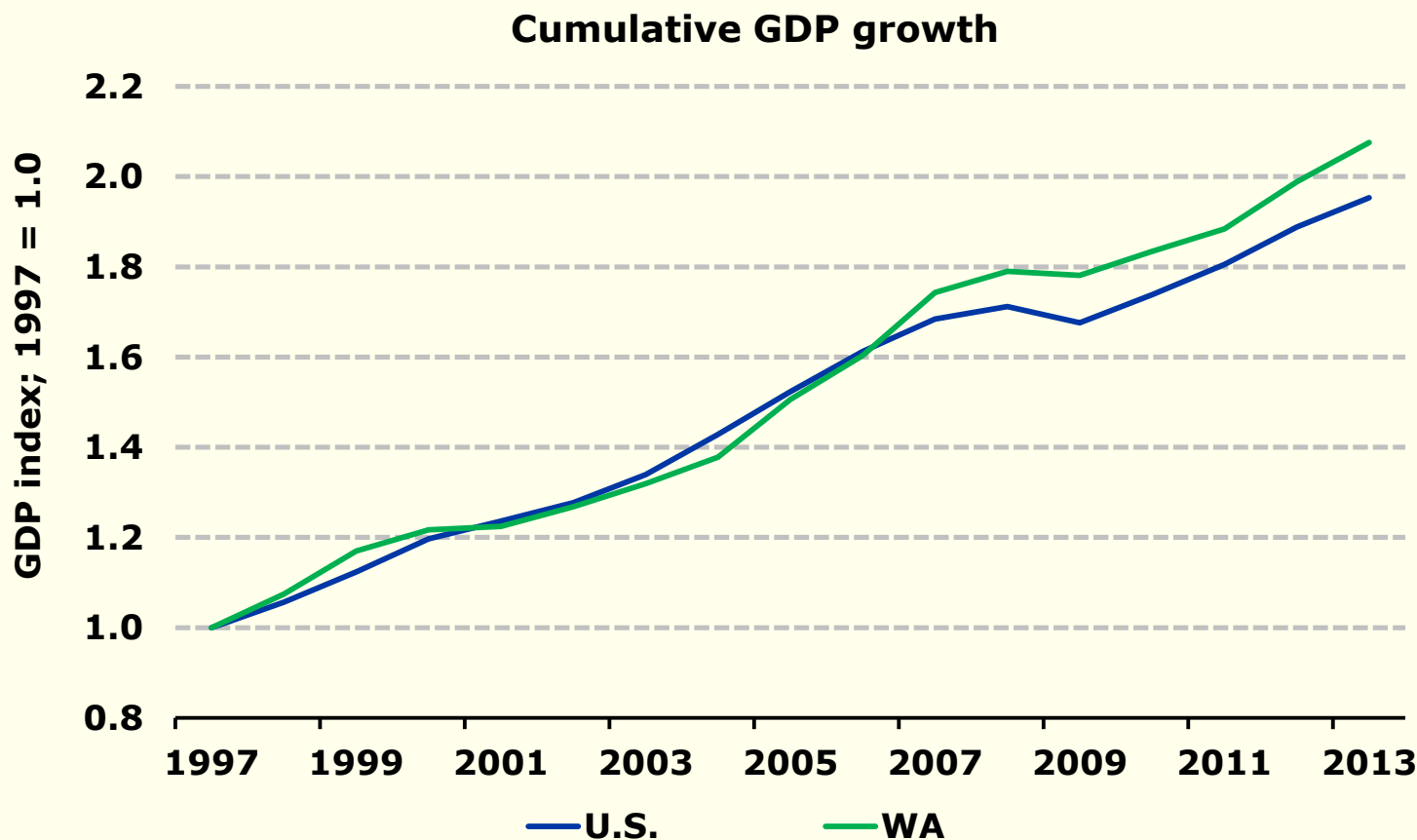
**Conf Board: 1985 = 100, SA**



Source: University of Michigan; Conference Board, data through July 2014



# Washington GDP has grown faster than U.S. GDP for the last two years



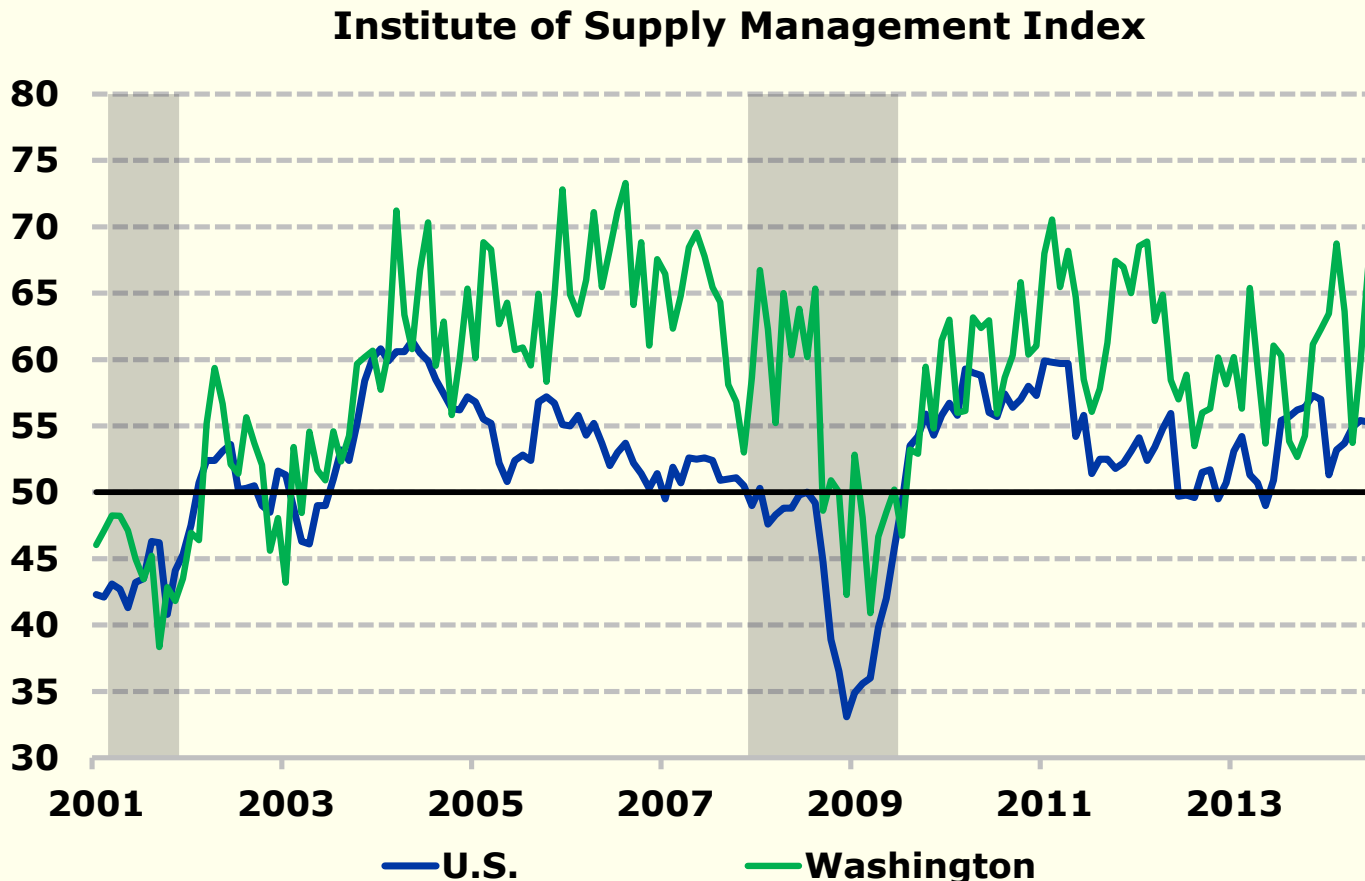
Source: Bureau of Economic Analysis; data through 2013





# Manufacturing activity: expanding faster in Washington than nationally

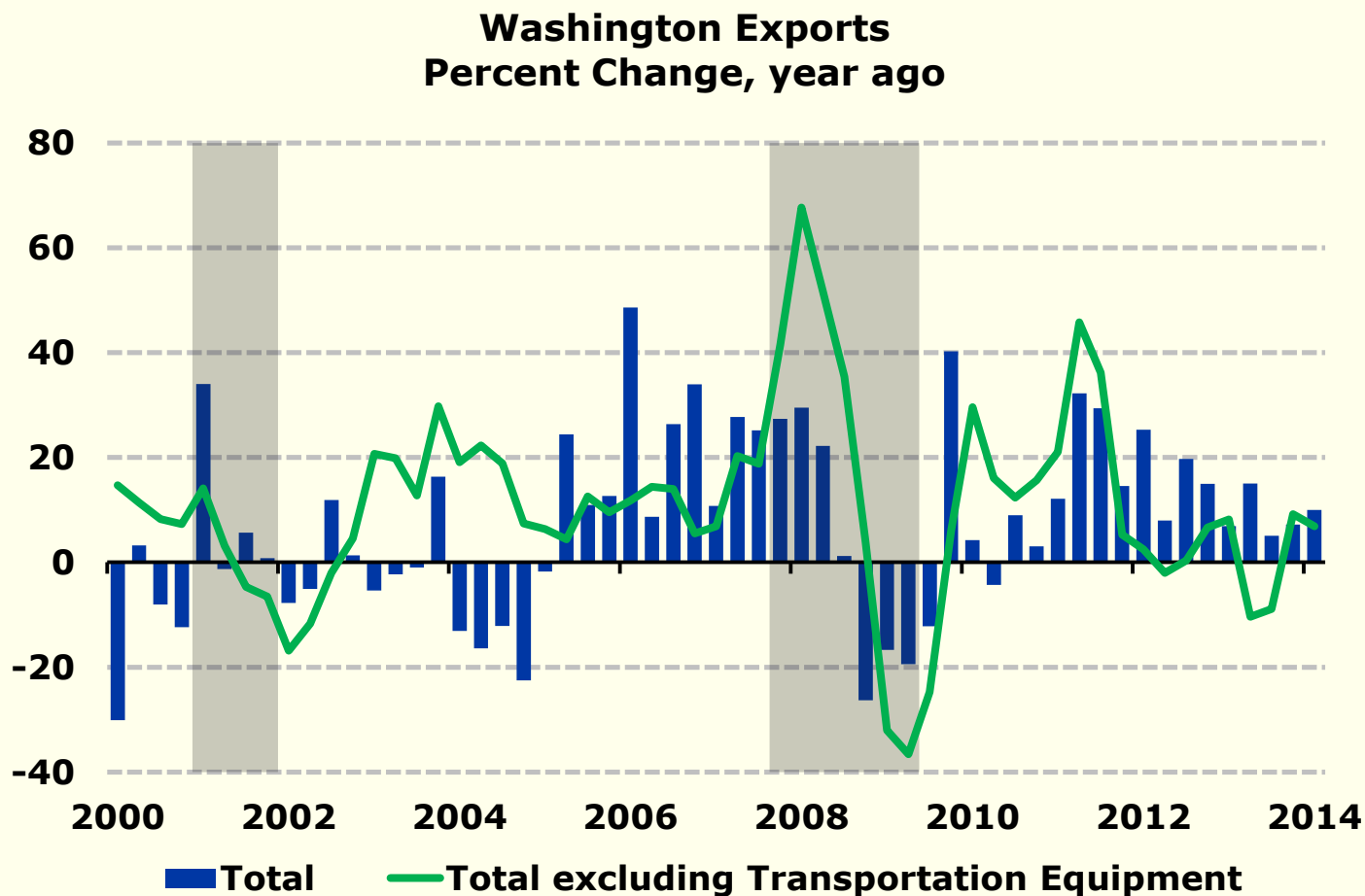
An index greater than 50, implies growth



Source: Institute of Supply Management; data through June 2014



# Non-transportation equipment export growth is back in positive territory

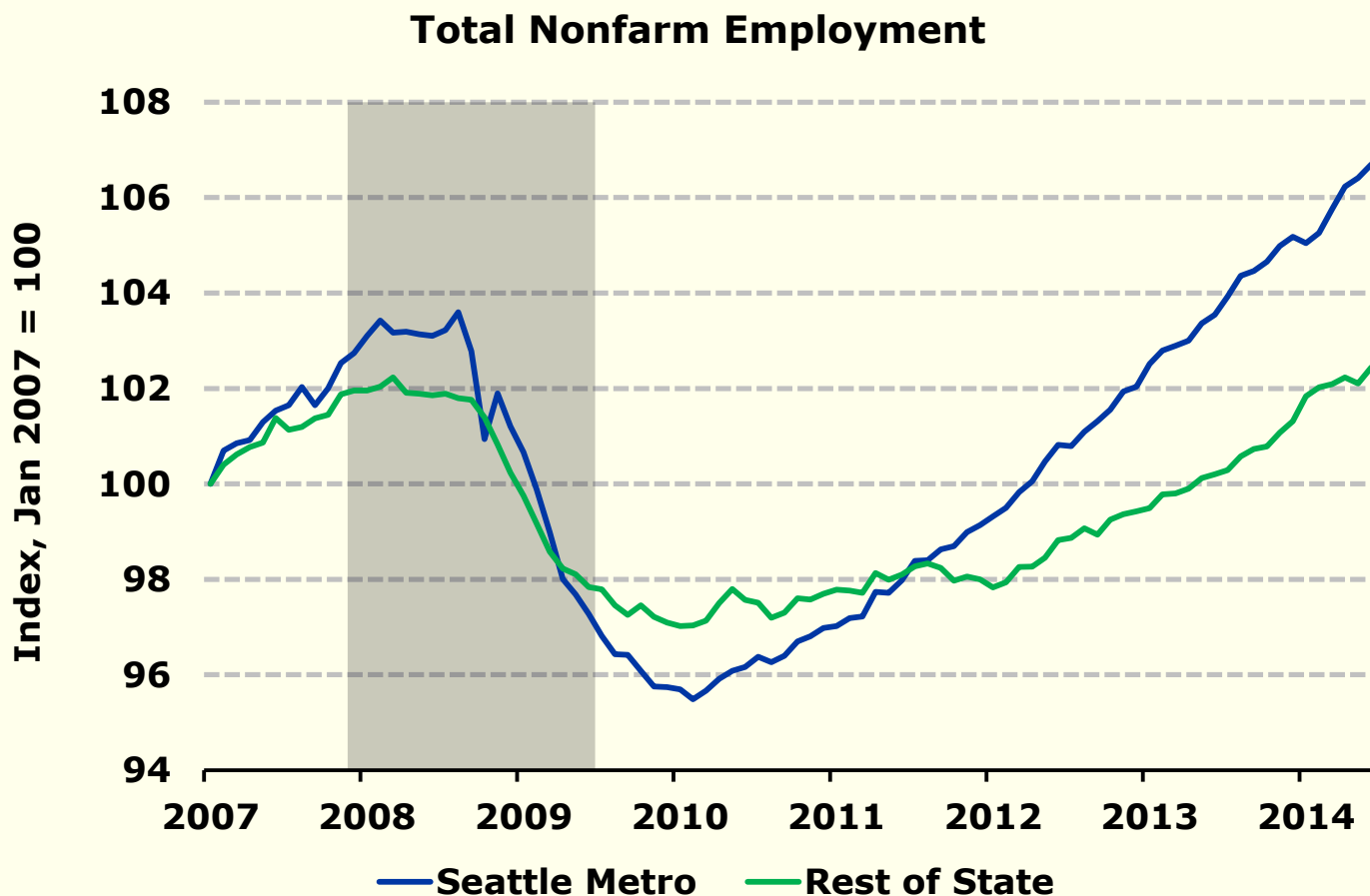


Source: Wisner Trade Data; through 2014Q1



# Seattle area employment is growing much faster than the rest of the state

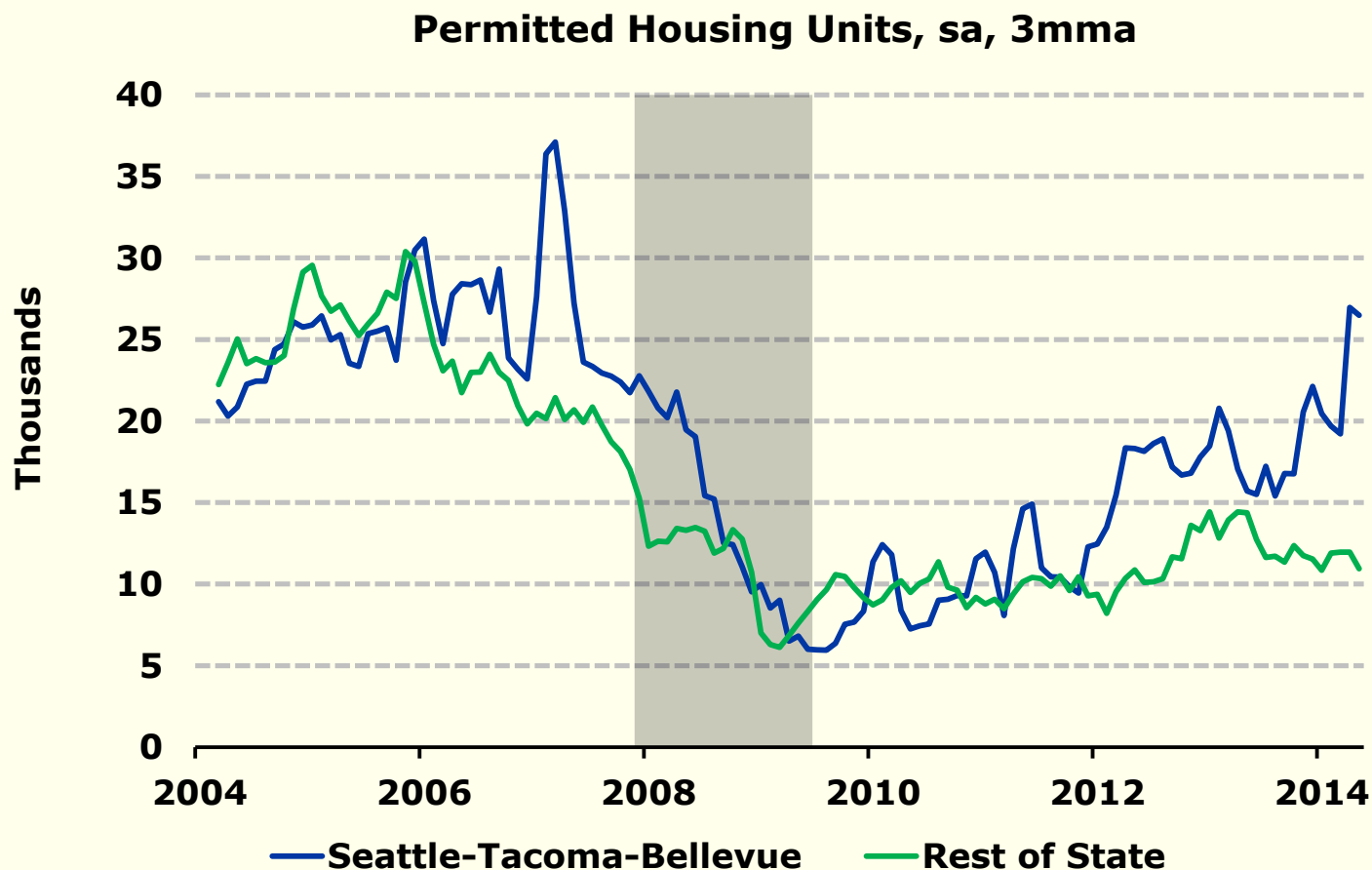
Outside of Seattle metro area, employment did not return to its pre-recession peak until June



Source: Employment Security Department, ERFC; data through June 2014



# Seattle area housing is growing much faster than the rest of the state

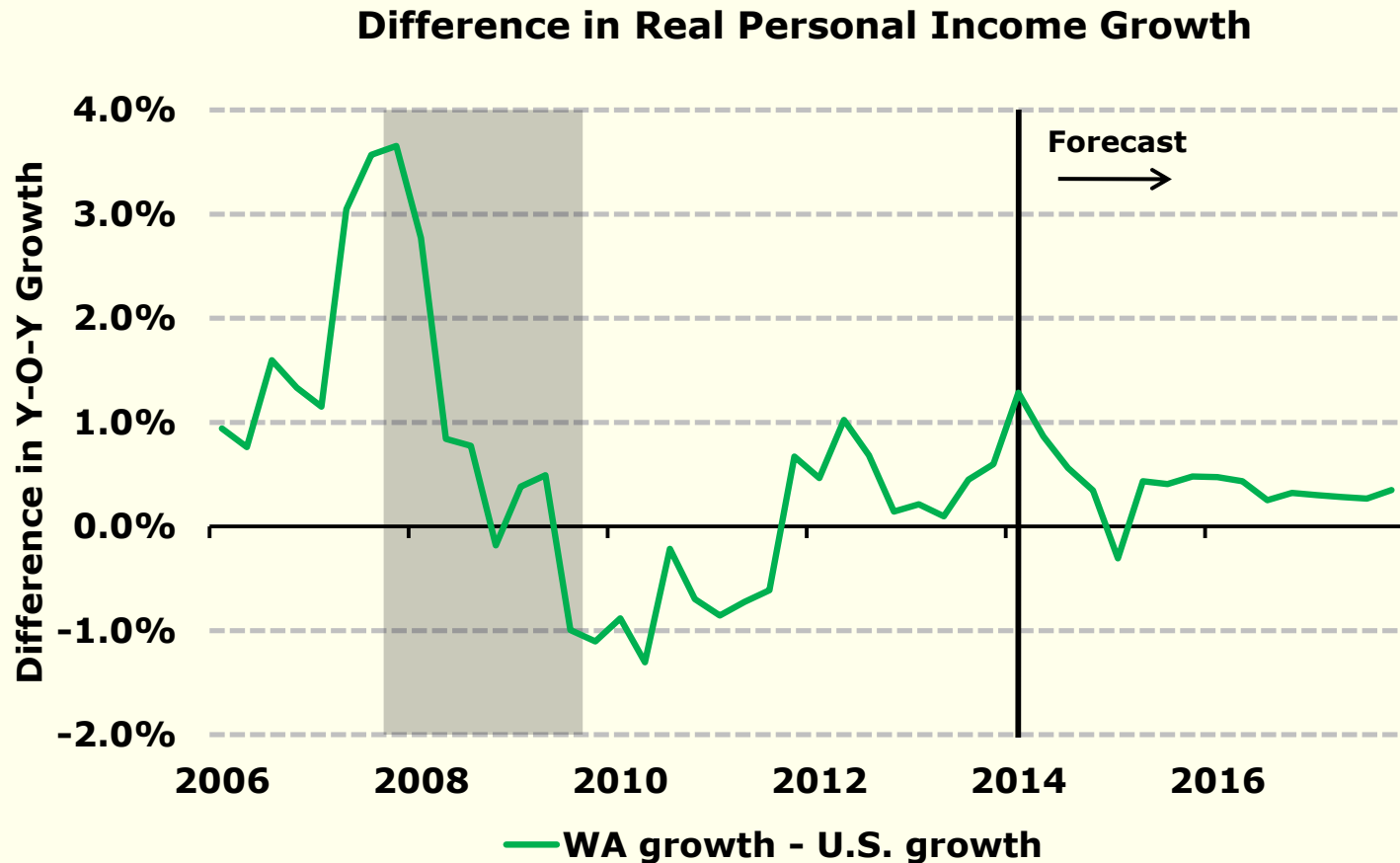


Source: Census, ERFC; data through May 2014



# State personal income will grow slightly faster than the U.S.

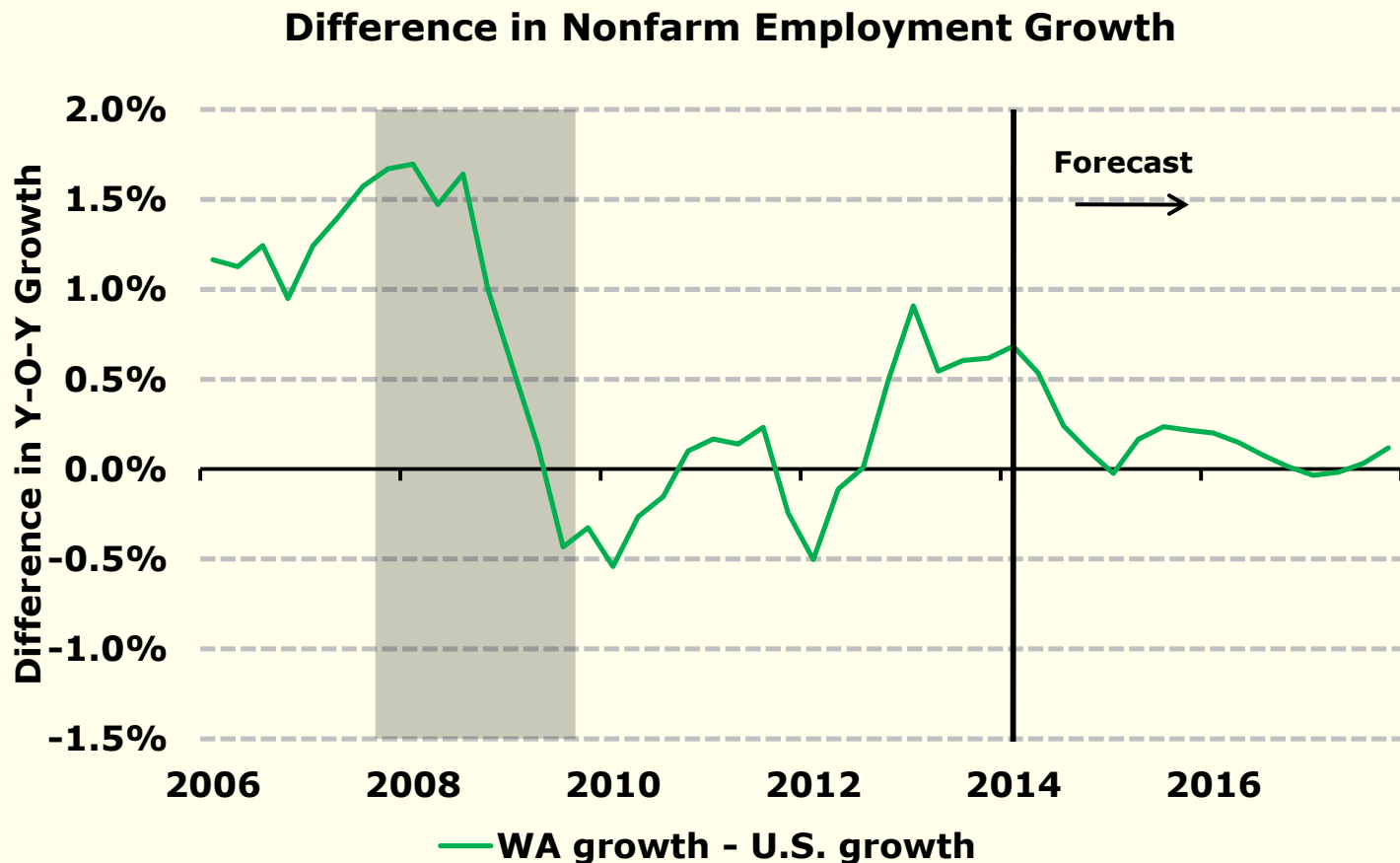
Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus



Source: ERFC June 2014 Forecast; historical data through 2014Q1



# Washington employment will grow slightly faster than the U.S.



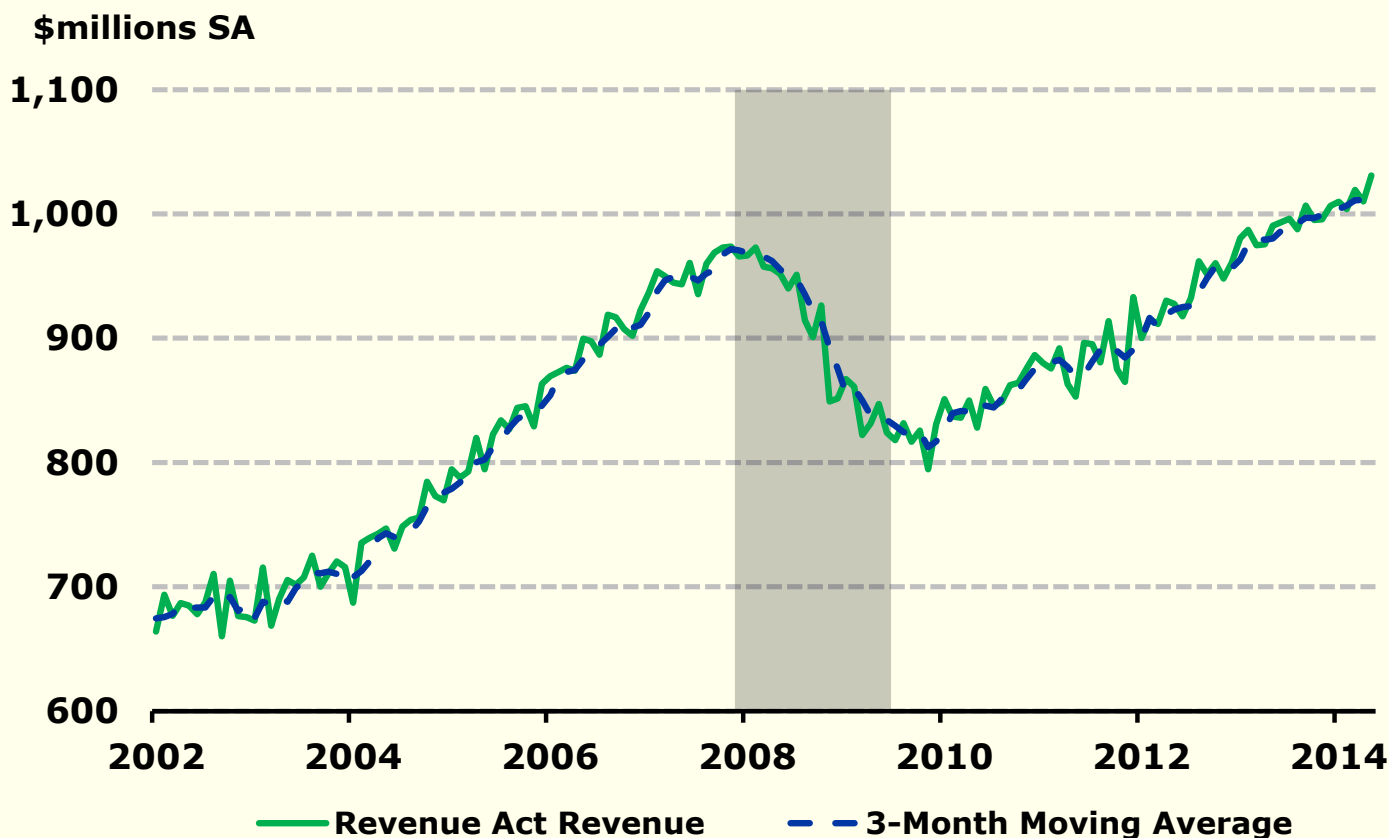
Source: ERFC June 2014 forecast; historical data through 2014Q1



# Seasonally adjusted Revenue Act collections still on an upward trend

Adjusted for large payments and refunds, collections increased 2.5% year-over-year for first quarter activity

Year-over-year growth was lowered by about 2% by the 0.3% B&O services surtax that expired on July 1, 2013



\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated May 2014 activity

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# REET: moderate residential growth plus spikes in large commercial sales

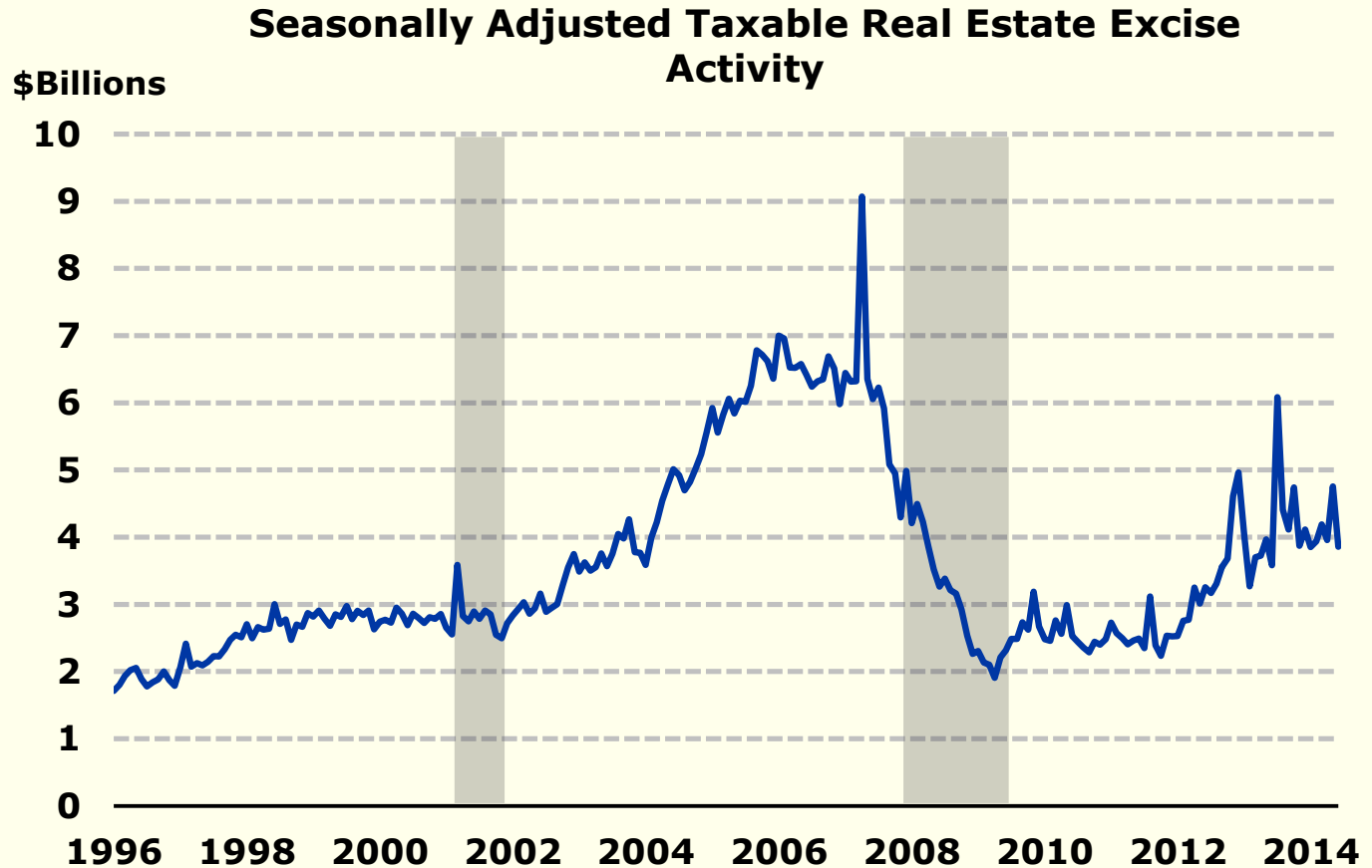
The residential market has shown strong price growth but total sales have been constrained by low inventory

Large commercial sales have caused several spikes in taxable activity

June sales of property worth \$10 million or more totaled \$609 million

Revenue Review  
July 30, 2014

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Source: ERFC; Monthly data through June 2014 preliminary





# Forecast changes: General Fund State, 2013-2015 Biennium

**February  
Forecast:**

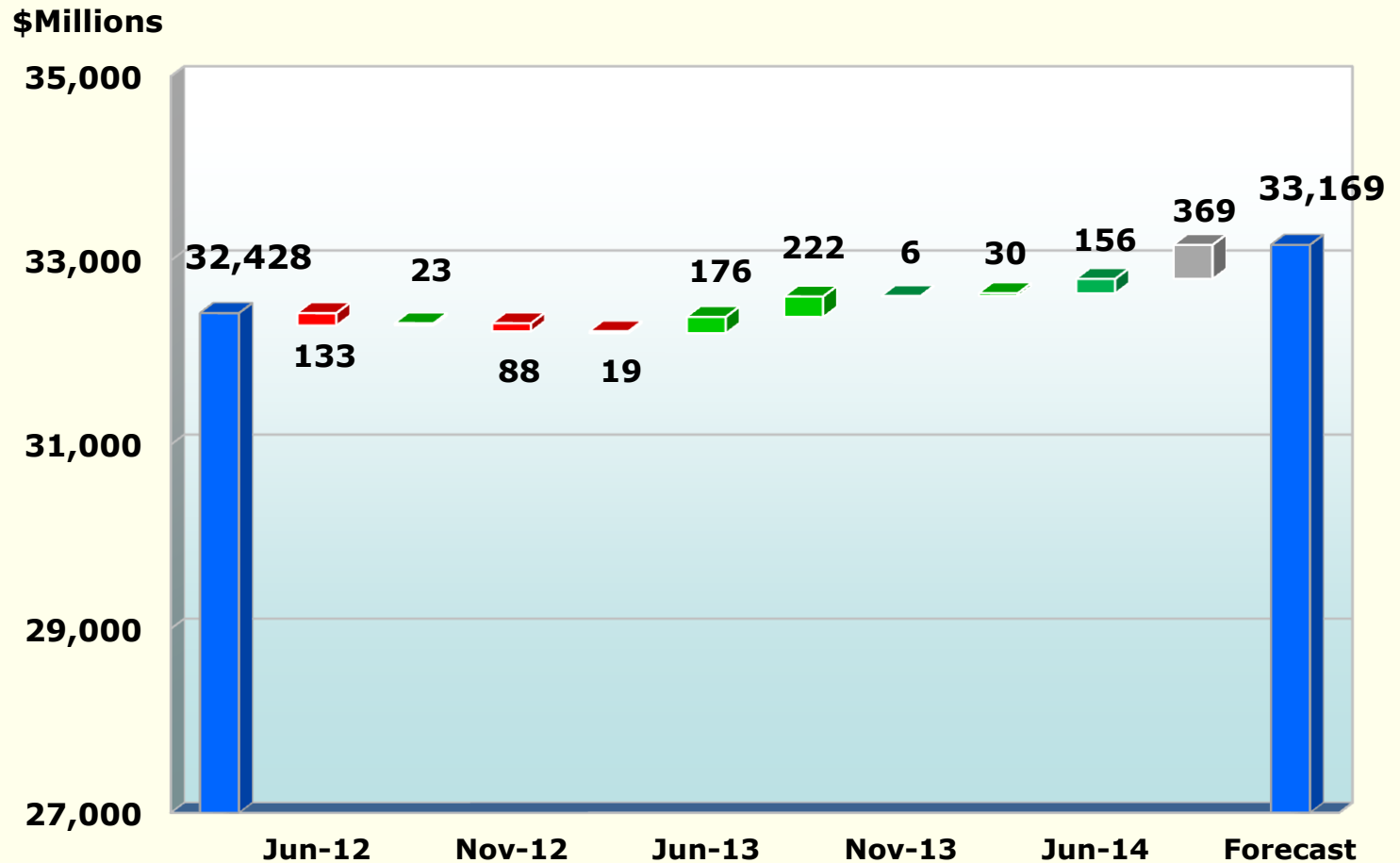
**\$33,013  
million**

\$Millions	June Forecast				
	<u>Collection Experience</u>	<u>Non-eco- nomic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$123	(\$7)	\$38	\$31,578	\$154
All other agencies	(\$1)	\$8	(\$4)	\$1,592	\$3
<b>Total GF-S</b>	<b>\$122</b>	<b>\$1</b>	<b>\$33</b>	<b>\$33,169</b>	<b>\$157</b>



# GF-S forecast revisions to the 2013-15 biennium

**GF-S**  
**New**  
**Definition**



Source: ERFC February 2012 – February 2014 forecasts  
Gray area indicates total noneconomic change

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# Forecast changes: General Fund State, 2015-2017 Biennium

**February  
Forecast:**

**\$35,697  
million**

**\$Millions**

## June Forecast

	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$5	\$194	\$34,266	\$199
All other agencies	\$0	\$40	\$1,669	\$40
<b>Total GF-S</b>	<b>\$5</b>	<b>\$233</b>	<b>\$35,935</b>	<b>\$238</b>



# GF-S cannabis revenue estimates

Revenue estimates use assumptions based on research conducted by LCB contractor BOTEC Analysis

**\$Millions**

**June Forecast**

	<u><b>2013-15</b></u>	<u><b>2015-17</b></u>	<u><b>2017-19</b></u>
GF-S share of excise tax and license fees	\$0	\$22.9	\$63.0
Retail sales tax and B&O	\$0	\$28.3	\$75.4
Dedicated share of excise tax and license fees	\$0	\$110.8	\$285.5
<b>Total</b>	<b>\$0</b>	<b>\$162.0</b>	<b>\$424.0</b>

Source: ERFC, BOTEC Analysis; detail may not add to total due to rounding



# Conclusion

- The economic forecast is quite similar to February's forecast; we expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy
- Revenue collections are expected to grow 8.2% between the 2011-13 and 2013-15 biennia and 8.3% between the 2013-15 and 2015-17 biennia
- The level of uncertainty in the baseline remains high, with risks on both the downside and upside



# Questions



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